

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00  
COME-00 DODE-00 DOE-11 H-01 INR-10 INT-05 L-03  
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TO SECSTATE WASHDC 3256  
INFO AMEMBASSY BRUSSELS  
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USEEC

E.O. LL652: N/A  
TAGS: ENRG, UK  
SUBJECT: LORD KEARTON SAYS U.S. FIRMS MAY LEAVE NORTH  
SEA, URGES OIL PRICE RISE

BEGIN UNCLASSIFIED

L. THE CHAIRMAN AND CHIEF EXECUTIVE OF BRITISH NATIONAL OIL CORPORATION (BNOC), LORD KEARTON, HAS SAID IT SEEMS INEVITABLE THAT AMERICANS WILL PUT GREATER EMPHASIS ON INCREASING DOMESTIC OIL AND GAS SUPPLIES AND "YOU COULD THEN SEE, THROUGH GOVERNMENT ACTION, A RETREAT OF THE U.S. COMPANIES TO THEIR HOME WATERS". KEARTON, SPEAKING TO THE HOUSE OF COMMONS SELECT COMMITTEE ON NATIONALIZED INDUSTRIES, SAID THE SOLUTION WAS TO EXPAND AND FULLY INTEGRATE THE CAPABILITIES OF HIS OWN STATE-OWNED OIL COMPANY TO FILL THIS EXPECTED VOID IN THE NORTH SEA. KEARTON REMINISCED THAT HE HAD WANTED BNOC TO TAKE OVER THE U.K. INTERESTS OF BRITISH PETROLEUM BUT BP RESISTED, PARTLY OUT OF CONCERN OVER THE REACTION IN AMERICA TO A

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FIRM WITH ACTIVE STATE INVOLVEMENT. (BP IS 51 PERCENT GOVERNMENT-OWNED BUT CONDUCTS ITSELF LARGELY AS A PRIVATE FIRM; THE GOVERNMENT IS A PASSIVE AND SILENT STOCKHOLDER)

2. LORD KEARTON ALSO SAID THE NORTH SEA BOOM IS OVER UNLESS THE PRICE OF CRUDE RISES MARKEDLY IN THE NEAR FUTURE. WHILE IT APPEARED OIL PRICES WOULD REMAIN

STEADY FOR SOME TIME, HE SAID A RISE IN OIL PRICES WAS NEEDED TO IMPROVE PROSPECTS FOR THE SMALLER FIELDS. HE WAS SKEPTICAL THAT MORE LARGE FIELDS WOULD BE FOUND. HE NOTED THAT THE COST OF EARLY NORTH SEA DEVELOPMENTS HAD DOUBLED IN REAL TERMS (NO TIME FRAME GIVEN) AND THAT THE RAPID INCREASE IN OIL PRICES SINCE 1973-74 HAD "SAVED" THESE PROJECTS. END UNCLASSIFIED.

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3. COMMENT: IT SHOULD BE RECALLED THAT BNOC IS ENGAGED IN HARD NEGOTIATIONS ON PARTICIPATION AGREEMENTS WITH OIL COMPANIES. THIS MAY PARTLY ACCOUNT FOR KEARTON'S REMARKS ABOUT AMERICAN OIL COMPANIES AND COULD BE INTENDED TO STRENGTHEN HIS HAND IN THOSE NEGOTIATIONS. (SEPTTEL IS BEING PREPARED ON THE STATUS OF PARTICIPATION AGREEMENTS.) A SENIOR OFFICER IN THE U.K. DEPT. OF ENERGY CAUTIONS THAT KEARTON WAS BEING CROSS-EXAMINED AND WAS NOT SPEAKING FROM A PREPARED STATEMENT; HE WAS BEING PRESSED TO JUSTIFY BNOC'S EXISTENCE. WE ALSO ASKED A SENIOR BNOC OFFICIAL FOR PERSPECTIVE ON KEARTON'S REMARKS; HE FELT THAT KEARTON SIMPLY MEANT THE BONANZA DAYS WERE OVER IN THE NORTH SEA AND THAT IT WAS POSSIBLE THAT AN ERA OF LOWER OIL PROFITS IN THE U.K. MIGHT COINCIDE WITH EXPANDED COMPETITION FROM THE U.S. AND ELSEWHERE FOR THE EXPLORATION AND PRODUCTION SERVICES OF OIL COMPANIES.

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PRICES TO MEET DEVELOPMENT EXPENSES OF SMALLER AND MORE MARGINAL FIELDS HAS OBVIOUS LONG-RUN ECONOMIC VALIDITIES, IT IGNORES THE ALLOWANCES ALREADY MADE IN THE CURRENT U.K. NORTH SEA TAX REGIME. MARGINAL FIELDS CAN BE EXEMPTED FROM PART OR ALL OF THE PETROLEUM REVENUE TAX (AS IS NOW THE CASE FOR THE AUK AND ARGYLL FIELDS), AND THERE IS EVEN AN UNUSED AUTHORITY TO EXEMPT ROYALTY PAYMENTS WHICH COULD BE ACTIVATED AT ANY TIME. THE U.K. DEPT. OF ENERGY SOURCE AGREES THAT THESE TAX FLEXIBILITIES DO MODERATE THE CASE FOR HIGHER PRICES, AS DO TECHNOLOGICAL DEVELOPMENTS, THE COMPANIES' DEEP-WATER "LEARNING CURVES", AND THE EXISTENCE OF SEVERAL SEA BED OIL PIPELINES, INTO WHICH SMALLER FIELDS ARE ABLE TO TAP. HOWEVER, HE REMINDED US THAT DEEPER WATERS AND MORE FAULTED AND OTHERWISE DIFFICULT TO EXPLOIT OIL-BEARING STRUCTURES AROUND BRITAIN COULD ULTIMATELY REQUIRE HIGHER OIL PRICES FOR ECONOMIC EXPLOITATION IN THE ABSENCE OF TECHNOLOGICAL BREAKTHROUGHS.

STREATOR

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## Message Attributes

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